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SUBJECT: INDIA'S SECURITY CONCERNS OVER CHINESE BIDDER FORCES
KERALA TO REBID PORT PROJECT

REF: NEW DELHI 871

¶11. (SBU) SUMMARY: The leftist government in the southeastern Indian state of Kerala has been forced to rebid a \$1 billion port project due to the Government of India's refusal - over security concerns - to authorize the participation of two Chinese corporations in the winning proposal. Kerala officials believe the proposed port's natural depth and close proximity to international shipping routes give it the potential to attract transshipment business presently handled at Colombo, Singapore and Salalah, Oman. However, skeptics note that the central government's Shipping Minister, from neighboring Tamil Nadu, is bent on promoting a competing project in his home state. END SUMMARY

¶12. (SBU) Abandoning a long effort to pressure the Center to approve security clearance for a Chinese consortium to develop Kerala's Vizhinjam port, the state's leftist government has decided to move on and retender the \$1 billion project. Kerala Port Minister M. Vijayakumar of the Communist Party of India (Marxist) told Post that the Government of Kerala would soon invite fresh global tenders. He refuted some media reports that multinational companies would be excluded from bidding.

¶13. (U) Touted as Kerala's "Port of the Future," Vizhinjam has stayed that way for a long time. Sixteen kilometers south of Kerala's state capital Thiruvananthapuram, Vizhinjam now has a small port where, once in a while, tourist vessels call. Kerala officials say that with 5-6 meters dredging, Vizhinjam can berth the world's biggest ships and supertankers with ease. Close proximity to international sea routes would put the proposed port in the position to handle a substantial portion of the many containers to and from India that are presently transshipped through Colombo, Singapore and Salalah.

¶14. (SBU) In 2005, Kerala invited global bids for the development of the port into a mega container transshipment hub capable of handling post-Panamax class carrier ships. Twenty-two companies showed interest, but all except two backed out without presenting bids. In January 2006, the then Congress party-led government of Kerala accepted the bid by a consortium that included two Chinese companies -- China Harbor Engineering Company and Kaidi Electric Company -- and Zoom Developers, Mumbai. The central government, however, refused security clearance for the project. Journalist sources told Post that the presence of the Chinese companies -- particularly the China Harbor Engineering Company which is developing the Gwadar Port in Pakistan --- in the consortium was the reason for the refusal.

¶15. (SBU) After coming to power in May 2006, the state's new government, led by the Communist Party of India (Marxist), intensely lobbied New Delhi for the Chinese project. In August, the Chief Minister took an all-party delegation to beseech Prime Minister Singh to give the project the go-ahead. Kerala officials hoped that Chinese Premier Hu Jintao's 2006 India visit would help resurrect the project but that did not materialize. Faced with the Center's unflinching refusal, Kerala backed down and opted for a fresh bid.

¶16. (SBU) A competing project may hold back the Kerala proposal.

Media contacts said that the central government's Shipping Minister, T.R. Balu of Tamil Nadu's ruling DMK party, is pushing for a similar project in Colachel in his home state. Although Kerala officials remain upbeat about the new bid process, the Tamil Nadu alternative presents a challenge.

¶7. (SBU) COMMENT: Kerala officials hope the central government's security concerns have only temporarily set back the project. The truth is that Vizhinjam faces a tough battle. Although certain factors, including the port's natural depth and its location, make the Kerala project cost-effective, those advantages may be overshadowed by economic realities. In contrast to Kerala's reputation for strikes and work stoppages, Tamil Nadu brings to the table a track record of positive industrial labor relations. Moreover, Tamil Nadu is seen by multinational corporations as investor friendly whereas Kerala, with its leftist orientation, is not.

¶8. (SBU) COMMENT CONTINUED: Caught between two of its coalition partners, the DMK Party and the Communist Party of India (M), the Congress Party must play its cards shrewdly. Since the Samajwadi Party withdrew support from the UPA government (reftel), Congress has grown increasingly fragile and vulnerable to the demands of the Left and its other coalition partners. Congress will try to manage these political realities, as well as the national security concern that the bureaucracy has raised. END COMMENT.

¶9. Embassy New Delhi contributed to this message.

HOPPER